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**THE
BRITISH COLUMBIA RAILWAY
GROUP OF COMPANIES
ANNUAL REPORT
FOR 1987**

CORPORATE STATEMENT

The British Columbia Railway group comprises three companies:

- ☐ British Columbia Railway Company, which holds investments in its two subsidiary companies —
- ☐ BCR Properties Ltd., which owns and manages the group's non-operating real estate assets and
- ☐ BC Rail Ltd., which is the group's railway operating company.

The Province of British Columbia is the sole shareholder of British Columbia Railway Company, which holds 100 per cent of the common shares of BCR Properties Ltd. BCR Properties owns 75 per cent of the common shares of BC Rail Ltd., the remaining 25 per cent of which are held by British Columbia Railway Company.

In 1984, BC Rail Ltd. offered eight million Series 1-A Preferred Shares for sale on Canadian stock exchanges, at a unit price of \$25. The non-voting stock offer was fully-subscribed and the capital raised was used to acquire operating railway assets from British Columbia Railway Company which in turn, retired short-term borrowings.

The railway's principal sources of revenue are the transportation of forest industry-related products and coal from British Columbia's northeastern coalfields. All told, BC Rail operates and maintains 1,390 miles of main track between North Vancouver and its northernmost terminal in Fort Nelson, B.C.

BC Rail has online connections to all rail-served points in North America. Group assets exceed \$1.3 billion.

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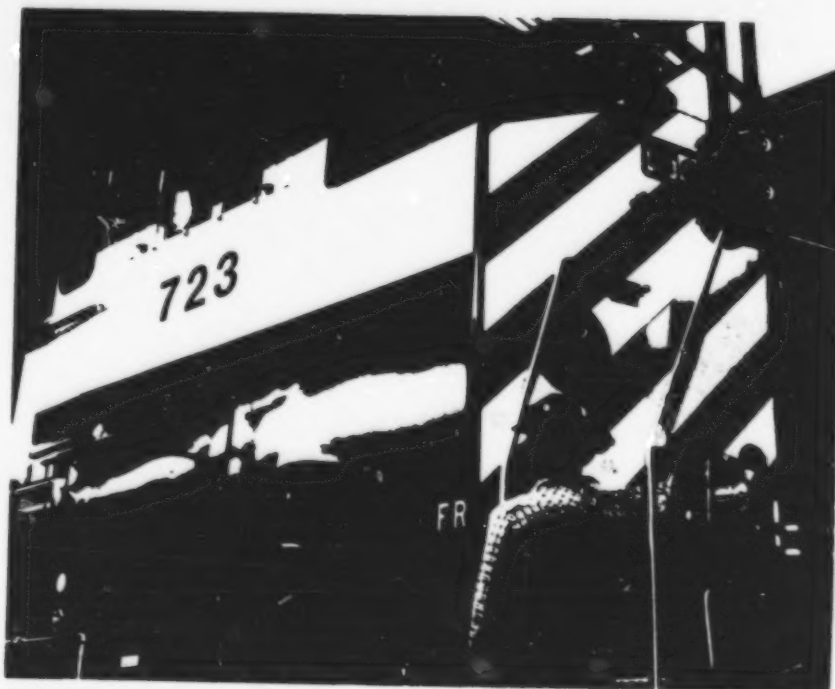
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Locomotive No. 723 receives final inspection in Squamish shops after overhaul and repainting. A detail from this photograph forms the front and back covers of this report.

BOARD OF DIRECTORS†

J. Norman Hyland, *Chairman*
S. C. Cooper
E. Cecil Hurd
Jim Inkster
Valerie Kordyban

E. A. Moffat
M. C. Norris
Bruce Rome
Jack Weisgerber, *MLA*

(Mr. Stanley M. Horner resigned from the Board on June 30th 1987.
Mr. Jim Inkster was appointed on September 17th, 1987).

† Significant changes were made to the Board of Directors in
March 1988. They are addressed by incoming Chairman
Mr. Gerry Strongman in the Directors' Report that follows.

OFFICERS

M. C. Norris, *President and Chief Executive Officer*
A. C. Sturgeon, *Senior Vice-President*
(Operations and Maintenance and Marketing and Sales)
J. R. Clarke, *Vice-President - Finance and Administration*
Brian Foley, *Vice-President - Industrial Relations and Information Systems*
G. L. Ritchie, *Vice-President - Administration and Secretary**
R. W. Young, *Secretary***

* Retired June 30th, 1987

** Appointed July 1st, 1987

FINANCIAL HIGHLIGHTS

	(Dollars in Thousands)	
	1987	1986
Operating revenues	\$321,842	\$313,447
Operating expenses	\$238,137	\$230,396
Operating income	\$83,705	\$83,051
Net income before minority interest	\$72,755	\$69,937
Net income	\$54,255	\$51,437
Carloadings	233,162	235,697
Total tons of freight hailed	17,670,147	17,854,317
Employees at year-end	2,760	2,660

DIRECTORS' REPORT



As the incoming Chairman of the British Columbia Railway group of companies, I shall be spending the next few months familiarizing myself with the operating railway and its related activities throughout the system.

Like most British Columbians, I am already familiar with the vital role the railway has played in the development of the province over the past 76 years. To be joining the Board as the group marks its sixth consecutive year of record operating income, is gratifying indeed.

The fact that the railway continues to be commercially successful, in an increasingly competitive business environment, is a tribute in no small way to the leadership of the outgoing Directors, under the chairmanship of Norman Hyland, as well as the railway's effective management team.

I am very much looking forward to working with President and Chief Executive officer Mac Norris and his management group. My first task as Chairman, however, must be to recognize the untiring efforts of the former Board members, whose resignations were announced early in March, 1988. On behalf of the new Board, I offer our gratitude and admiration for the manner in which the company's affairs have been conducted over the years.

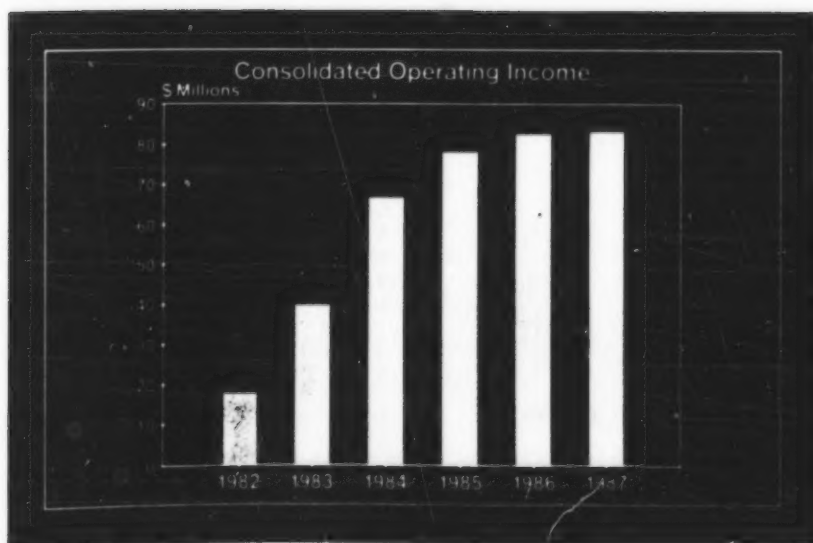
Mr. Hyland was appointed to the Board in 1976, as were his fellow retiring directors, Cecil Hurd and Bruce Rome. While Sid Cooper and Valerie Kordyban joined the Board more recently, all gave unstintingly of their time and played significant roles in the past and recent advancement of the company's objectives.

It is also important to recognize the significant contribution of Stan Horner, who resigned from the Board during 1987. Mr. Horner was appointed to the Board in 1976 and served as Chairman of the Audit Committee.

As well as Mr. Norris, who will continue to serve as a Director, existing Board members Jack Weisgerber, Jim Inkster and Ted Moffatt are now joined by Victor Bowman, of Prince George; Winton Derby, Q.C., of Vancouver; Chief Eddie John, the Tribal Chief of the Carrier Sekani Tribal Council in Prince George and Beverly Ellis, of Vancouver.

I look forward to working with all members of the newly constituted Board of Directors and to the exciting and challenging years that lie ahead for the company.

Gerry Strongman
Chairman



PRESIDENT'S REPORT



Despite a decline in northeast coal shipments during the 1987 fiscal year, I am pleased to report an improvement in consolidated operating income for the sixth successive year.

Operating income rose only marginally — to \$83.7 million from \$83.1 million in the preceding year — yet net income, after provision for preferred shareholders' dividends and taxes, increased to \$54.3 million from \$51.4 million in 1986.

It is equally rewarding to report that by year end, the company's long-term debt had been reduced to \$113.4 million from \$196.3 million at the end of 1984. During 1987 the balance of the remaining short-term notes was completely eliminated.

The softwood lumber tax — enacted at the end of 1986 — caused some uncertainty in the marketplace at the beginning of the year but it is to our forest products shippers' credit that stability was quickly restored. A sharp fall-off in U.S. housing starts at year end caused some concern.

Since that time, however, there has been an improvement and the U.S. home renovation market is very active.

The net income of \$54.3 million is the best ever recorded by the company. Nevertheless, it represents a return of only four per cent on invested capital of more than \$1.3 billion. This falls short of the 12 to 15 per cent target for North American railways. BC Rail continues to meet all dividend and interest obligations from its own commercial activities.

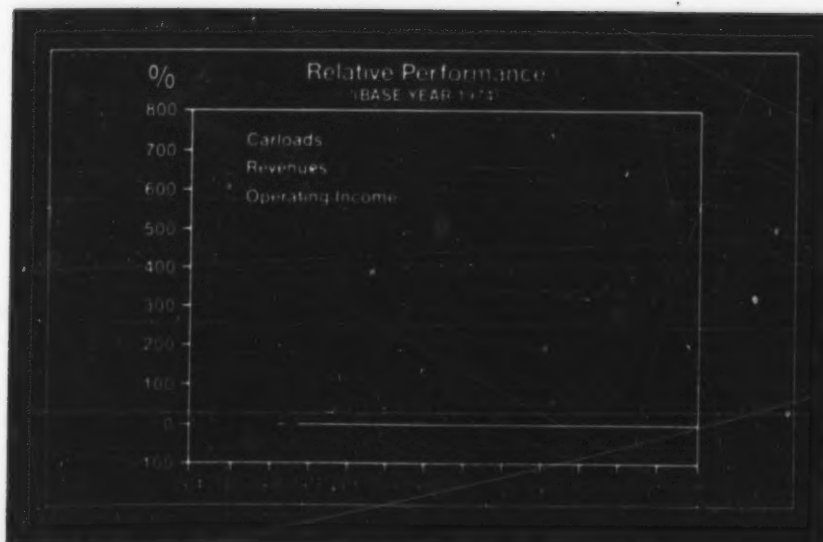
Provincial assistance received in 1987 was in the form of contributions toward the operation of uneconomic services that the government has chosen to preserve. The passenger and Fort Nelson operating subsidies are offset by the common shareholder dividends of \$10.3 million made to the provincial government in each of 1986 and 1987.

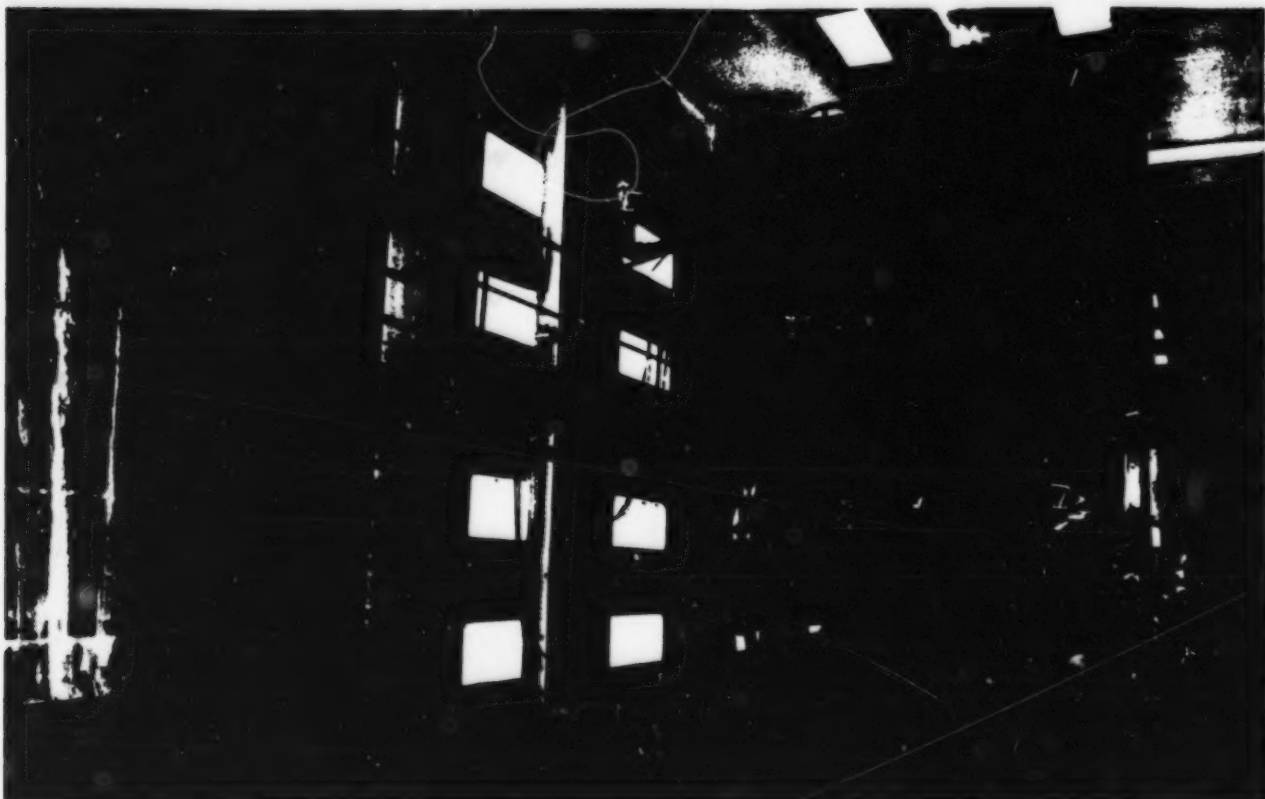
So far as can be ascertained, the Canada-U.S. agreement on freer trade will have a beneficial effect upon BC Rail's transportation activities by permitting continued access to U.S. markets. It would appear also, that duties on railway equipment imported from the United States will be reduced or eliminated.

While there was much speculation during the year on whether or not BC Rail was being considered for sale to private interests, no firm position has been announced and of course, the decision will be made by the sole common shareholder, the provincial government.

From the management point of view, the sale of BC Rail to private interests would have little effect on the way the company does business. The railway already has demonstrated its ability to succeed in a very competitive environment and I have faith in its ability to continue doing so, should its future lie in the private sector.

The year ahead promises to be challenging. Canada's National Transportation Act — enacted on January 1, 1988 —





Car repairs and maintenance are carried out in Squamish and Prince George.

effectively deregulated the country's transcontinental railways. It inevitably will create downward pressure on freight rates and intensify competition.

The new act underlines the fact that BC Rail operates in a tough competitive environment, which can only get tougher as shippers pursue other options opened up by deregulation. For that reason, the railway must continue to seek gains in productivity and efficiency.

Nevertheless, I am optimistic that 1988 will be a successful year, though whether or not the levels of profitability enjoyed over the past six years can be sustained, in view of the deregulated environment and increasing competition, remains to be seen.

In conclusion, I would like to acknowledge the continuing efforts of our employees throughout the system, without which this sixth record year of financial and

operational achievement would not have been possible.

I would also like to pay tribute to the outgoing Board members — who provided such strong support over the period of rejuvenation and restructuring of the British Columbia Railway group of companies — and to the former Vice-President - Administration and Secretary, Gordon L. Ritchie, who retired in June after 33 years of dedicated service.

I look forward to working closely with the incoming Chairman, Mr. Gerry Strongman, and the newly-appointed Directors, who join the Board almost exactly 10 years after the findings of Mr. Justice Lloyd McKenzie's Royal Commission on the affairs of British Columbia Railway were made public.

That decade was a telling one for the railway. In the years since the McKenzie recommendations were released, the company has been

physically and financially rebuilt as a vibrant, commercial organization.

While we are nearing the limit of productivity improvements resulting from the railway's rebuilding and modernization programs during those 10 years, I am confident that the new Board members can look forward to a second decade of progress, every bit as challenging as the last.

M.C. Norris

M. C. Norris, President
and Chief Executive Officer

Opposite: Between trips locomotives in northern B.C. are inspected and maintained in the Prince George diesel shop.

THE YEAR IN REVIEW



Keeping lines snow-free is an annual challenge on BC Rail's far northern routes.

For the sixth consecutive year, The British Columbia Railway group experienced improved consolidated operating results during the 1987 operating year.

Although overall carloadings declined slightly in 1987, the year's total of 233,162 was within one per cent of the previous year's result. While strong forest products movements were a major contributor to improved profitability, the improved productivity and efficiency resulting from large capital investments continue to play a major role.

The movement of woodchips within the province increased by

more than 10,000 carloads in 1987, while modest improvements were also recorded in grain, pulp, sulphur, chemicals and Atlantic cargo lumber.

Northeast coal carloadings fell by approximately 11,000 units compared with 1986, the result of reduced uptake by Japanese consignees. The steady improvement in operating results and the reduction in long-term debt since 1984, however, attests to the fact that coal movements continue to make a significant contribution to the railway's financial performance.

During the 1987 operating year, the railway's Industrial Relations

Opposite: Nineteen-eighty-seven capital expenditures totalled \$72.6 million, much of which was invested in track and physical plant improvement.



Coal shipments from northeastern B.C. continued to make a significant contribution to BC Rail revenues.

division merged with the Information Services and Communications departments to form the Industrial Relations and Information Systems division. At the same time, several other departments of the former Administration division were merged with the Finance division to form the present Finance and Administration division.

The railway and its organized employees continue to enjoy a businesslike relationship and early in the year, a three-year collective agreement, through June 30th, 1990, was signed with the Council of Trade Unions on BC Rail. It is a matter of record that for more than eight years, there have been no workdays lost at BC Rail due to strikes or lockouts.

Elsewhere in the field of industrial relations, the Brown disciplinary system of demerit points was replaced by a new suspension/dismissal system regarded as a more effective means of dealing with employee shortcomings. The new system was supported by a series

of arbitration decisions.

Major revisions to the company pension plan were introduced during 1987, the most significant of which makes improved provisions for the early retirement of employees.

In the information services area, an information resource plan was implemented, its purpose to bring a more structured and rational approach to the employment of information services facilities.

The railway continues to invest in improvements to its capital assets. During 1987, major projects included the expenditure of \$22.3 million on rail replacement between Clinton and Exeter, B.C.; \$6.7 million on ballast improvements; \$6.5 million for eight locomotives; \$4.0 million for the Fort Nelson extension upgrading program and \$2.8 million on tie replacement.

Total capital expenditures for the year amounted to \$72.6 million. Projected expenditures for 1988 are expected to exceed \$100 million, to be invested in rail replacement, construction of a tunnel at

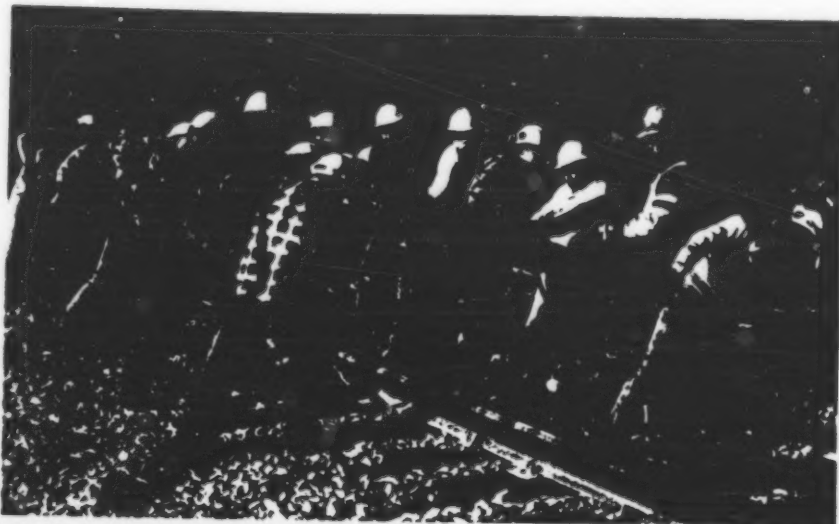
Shalalth, B.C., and a variety of track, land and technical improvements throughout the system.

The 1987 upgrading program has reduced running times on the Fort Nelson and Chetwynd subdivisions. At various points elsewhere, passing sidings were lengthened to increase operational flexibility.

Forest products companies served by BC Rail are investing approximately \$500 million in new pulp and paper facilities along the line. A further \$100 million is being invested in modernizing or building new lumber and plywood mills.

It is estimated that these additions and improvements will generate an additional 9,000 carloadings annually for BC Rail. The effects of the increased traffic are likely to be felt at the beginning of 1988 and may necessitate a modest expansion of the railway's 10,000-car fleet.

In Squamish, the railway's main repair and maintenance facility in southern B.C., the locomotive rebuild centre and specific repair units



Despite technological advances, there are some aspects of railway construction and maintenance for which there is no mechanical substitute.

were consolidated and a bolster reclaim unit added.

At the Prince George maintenance base a mobile yard repair program was launched allowing for minor car repairs on site rather than in-shop. In locomotive shops throughout the system productivity improvements have reduced motive power inspection time by approximately 15 per cent.

Productivity gains were not made at the expense of employee safety, however, and in that regard also, 1987 proved to be an excellent year. While no accident is ever acceptable, the record low accident

frequency rate established in 1986 held through 1987. BC Rail's performance in this respect compares well with North American railway safety standards.

Late in 1987 BC Rail conditionally agreed to enter into a track occupancy agreement with a group of northern lumber companies. Under the terms of the agreement, the forest companies will be permitted to occupy and upgrade a disused, 194-mile section of BC Rail line between Fort St. James and Birdflat Creek, B.C., and to operate an industrial railway for the

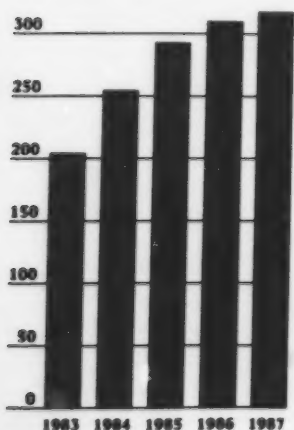
carriage of wood products. This is an innovative step designed to secure sawmilling jobs in the Prince George area and to secure connecting rail traffic for BC Rail.

Passenger train revenues rose by nine per cent in 1987. During the summer of 1988 service frequency between North Vancouver and Prince George will be increased to seven days from three days weekly. Fleet upgrading and service quality improvement programs launched five years ago continue to earn passenger acclaim and the passenger train has become a tourist attraction in its own right. Nineteen-eighty-eight tour group bookings — largely from the United States and Europe — are up by 150 per cent over 1987.

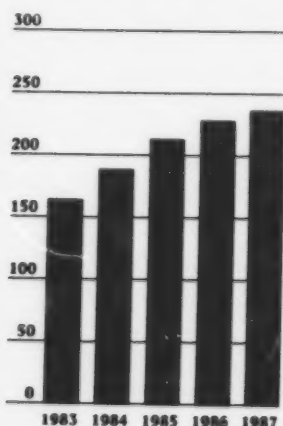
The railway's capital assets have more than doubled since 1980 — when they stood at \$607 million — to over \$1.2 billion. The base will continue to grow as capital projects are completed, with the five-year forecast calling for total expenditures of \$334 million (1988 dollars). In accordance with corporate policy, the majority of these projects will utilize supplies and materials sourced within the province.

The feature section following this report's financial statements deals with BC Rail's contribution to the provincial economy in more detail.

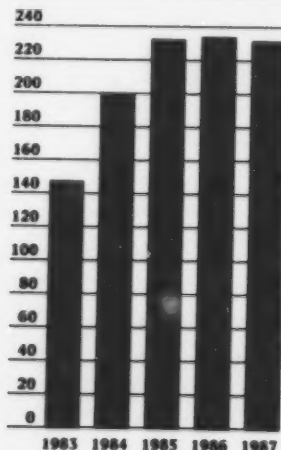
Consolidated Operating Revenues
350
\$ MILLIONS



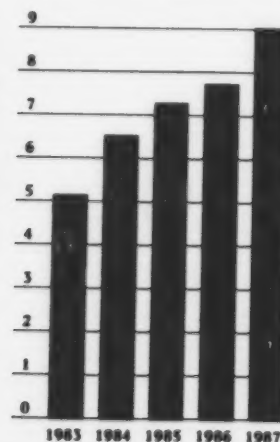
Consolidated Operating Expenses
350
\$ MILLIONS



Consolidated Car Loadings
260
THOUSANDS



Consolidated Gross Ton Miles
10
BILLIONS



BRITISH COLUMBIA
RAILWAY COMPANY
CONSOLIDATED
FINANCIAL STATEMENTS

BRITISH COLUMBIA RAILWAY COMPANY MANAGEMENT REPORT

The consolidated financial statements of British Columbia Railway Company have been prepared by management in accordance with generally accepted accounting principles in a manner consistent with the previous year. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements and to ensure that the presentation conforms with generally accepted accounting principles.

During the year, the Lieutenant Governor in Council appointed Coopers & Lybrand as the independent auditors to express an opinion as to whether these

consolidated financial statements present fairly the company's financial position and operating results in conformity with generally accepted accounting principles consistently applied. Their report outlines the scope of their examination and gives their opinion on the fairness of the statement presentation.

The Audit Committee of the company directors appointed by the Board meets periodically with financial officers of the company and the external auditors to ensure that each group is fulfilling its obligations and to review and approve the annual financial statements prior to their release.

Management maintains an extensive

system of internal accounting controls and believes that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an on-going basis by an internal audit department.

The consolidated financial statements have, in the opinion of the management of the company, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to financial statements.

AUDITORS' REPORT

To the Lieutenant Governor
in Council
Province of British Columbia

We have examined the consolidated balance sheet of British Columbia Railway Company as at December 31, 1987 and the consolidated statements of income and retained earnings and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1987 and the results of its operations and the changes in its cash

position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The comparative figures for the year ended December 31, 1986 were reported on by other auditors.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

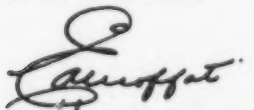
Vancouver, Canada
February 29, 1988

BRITISH COLUMBIA RAILWAY COMPANY

CONSOLIDATED BALANCE SHEET

	(Dollars in Thousands)	
	December 31	
	1987	1986
Assets		
Current assets		
Cash	\$ 23,447	\$ 712
Accounts receivable	37,131	51,027
Material and other items	35,604	30,451
	<u>96,182</u>	<u>82,190</u>
Property and equipment		
Road and buildings	1,124,824	1,076,404
Equipment	269,943	254,099
	<u>1,394,767</u>	<u>1,330,503</u>
Accumulated depreciation	278,099	247,069
	<u>1,116,668</u>	<u>1,083,434</u>
Dease Lake extension — Note 2	98,020	98,020
	<u>\$1,310,870</u>	<u>\$1,263,644</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 99,498	\$ 83,443
Current obligations on long-term debt	1,596	1,441
	<u>101,094</u>	<u>84,884</u>
Deferred income taxes	0	517
Long-term debt — Note 3	113,366	125,780
Minority interest — Note 4	200,000	200,000
Shareholder's equity		
Share capital — Note 5	257,688	257,688
Contributed surplus	510,716	510,716
Retained earnings	128,006	84,059
	<u>896,410</u>	<u>852,463</u>
Commitments — Note 6		
Contingent liabilities — Note 7		
	<u>\$1,310,870</u>	<u>\$1,263,644</u>

On behalf of the Board


 E.A. Moffat, Director


 M.C. Norris, Director

BRITISH COLUMBIA RAILWAY COMPANY

CONSOLIDATED INCOME AND RETAINED EARNINGS

	<i>(Dollars in Thousands)</i>	
	For the year ended December 31	
	1987	1986
Revenues	<u>\$321,842</u>	<u>\$313,447</u>
Expenses		
Operations	71,216	67,928
Equipment	68,105	69,698
Road	51,049	46,460
Depreciation	34,870	32,359
Other	23,542	24,046
Government assistance — Note 8	<u>(10,645)</u>	<u>(10,095)</u>
	<u>238,137</u>	<u>230,396</u>
Railway operating income	83,705	83,051
Non-operating income (expense)		
Interest — Note 9	(11,839)	(13,687)
Other income	<u>372</u>	<u>2,711</u>
	<u>(11,467)</u>	<u>(10,976)</u>
Net income before deferred income taxes	72,238	72,075
Provision for (recovery of) deferred income taxes — Note 10	<u>(517)</u>	<u>2,138</u>
Net income before minority interest	72,755	69,937
Minority interest	<u>18,500</u>	<u>18,500</u>
Net income	54,255	51,437
Retained earnings, beginning of year	<u>84,059</u>	<u>42,930</u>
Dividends paid	<u>138,314</u>	<u>94,367</u>
	<u>10,308</u>	<u>10,308</u>
Retained earnings, end of year	<u><u>\$128,006</u></u>	<u><u>\$ 84,059</u></u>

BRITISH COLUMBIA RAILWAY COMPANY

CONSOLIDATED CASH FLOW

	<i>(Dollars in Thousands)</i>	
	For the year ended December 31	
	<u>1987</u>	<u>1986</u>
Operating activities		
Net income	\$ 54,255	\$ 51,437
Add (deduct)		
Items not affecting working capital		
Depreciation and amortization	34,870	32,359
Deferred income taxes	(517)	2,138
Net changes in non-cash working capital		
Accounts receivable	13,896	2,512
Material and other items	(5,153)	4,730
Accounts payable	16,201	(24,461)
Interest	11,839	13,687
Minority interest	18,500	18,500
	<u>143,891</u>	<u>100,902</u>
Investing activities		
Additions to property and equipment	(72,447)	(53,898)
Change in payables for equipment purchases	(146)	(1,681)
Government assistance for capital items	4,343	10,413
	<u>(68,250)</u>	<u>(45,166)</u>
Financing activities		
Repayment of long-term debt	(12,259)	(22,983)
Interest	(11,839)	(13,687)
Minority interest in earnings	(18,500)	(18,500)
	<u>(42,598)</u>	<u>(55,170)</u>
Dividends paid	(10,308)	(10,308)
Increase (decrease) in cash	22,735	(9,742)
Cash, beginning of year	712	10,454
Cash, end of year	<u>\$ 23,447</u>	<u>\$ 712</u>

BRITISH COLUMBIA RAILWAY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

The accounting regulations prescribed by the Canadian Transport Commission for Canadian railways have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Commission for approval.

Basis of consolidation

The consolidated financial statements include the accounts of British Columbia Railway Company and its subsidiaries BC Rail Ltd. and BCR Properties Ltd. In these notes "company" refers to British Columbia Railway Company and its subsidiaries. All significant inter-company transactions are eliminated.

Class of business

The company provides a fully integrated rail freight service within British Columbia. Services other than hauling freight are not of sufficient size to warrant separate reporting.

Road property

New construction is recorded at cost net of Government grants. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material replaced is removed at amounts which approximate average unit costs. Labour costs for programmed replacements are expensed as incurred.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which, on disposal, the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in income. The original cost of assets less estimated salvage value is depreciated over the following number of years:

	Number of years
Grades, surfacing and tunnels	100
Rails	35
Ties	15
Ballast	25
Bridges	30-80
Locomotives and power units	25
Freight cars	15-33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Material and supplies

Inventories of material and supplies are valued at the lower of average cost and net realizable value.

Government assistance

Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Operating assistance has been deducted from the related expense accounts or included in revenue.

Income taxes

Income tax expense is computed on the basis of accounting income recorded by BC Rail Ltd. No taxes are currently payable as BC Rail Ltd. is currently drawing down prior years deferred tax credits. British Columbia Railway Company and BCR Properties Ltd. are exempt from Canadian federal and provincial income taxes.

Transactions in foreign currency

Transactions originating in foreign currency are translated at the approximate exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currency at the balance sheet date are translated to equivalent Canadian amounts at the current rate of exchange.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases. The capital lease obligations reflect the present value of future minimum rental payments discounted at the interest rate implicit in the leases. The capitalized values of depreciable assets are generally depreciated over the related lease terms in equal annual amounts. Costs of all other leases are charged against operations as incurred.

2. Dease Lake Extension

These costs consist of charges relating to the uncompleted Dease Lake extension. Construction was suspended in 1977 and there are no commitments to continue. In the event any portion of this extension is abandoned, the cost less any value recovered will be written off at that time.

3. Long Term Debt

Long-term debt outstanding, less current maturities, consists of the following (in thousands):

	1987	1986
Sinking fund bonds and debentures payable to the Province of British Columbia (the Province)		
11% due June 1995	\$ 25,000	\$ 25,000
10.99% due August 2005	24,490	24,490
	<u>49,490</u>	<u>49,490</u>
Less sinking fund	416	199
	<u>49,074</u>	<u>49,291</u>
Bond payable to the Province		
10.75% due February 1990	25,000	25,000
Capital lease obligations — Notes 6 and 12	40,888	42,137
	<u>114,962</u>	<u>116,428</u>
Deduct current portion	1,596	1,441
	<u>113,366</u>	<u>114,987</u>
Notes payable to the Province	—	10,793
	<u>\$113,366</u>	<u>\$125,780</u>

4. Minority Interest

The minority interest consists of 8,000,000 series 1-A first preferred shares with a par value of \$25 each issued by BC Rail Ltd. These shares are designated as \$2.3125 cumulative, redeemable and retractable.

BC Rail Ltd. must make all reasonable efforts in each quarter to purchase for cancellation in the open market three-quarters of 1% of the series 1-A preferred shares outstanding at the beginning of the quarter at a price not to exceed \$25 per share and all transaction costs. If it is unable to fulfill its obligation in any calendar quarter the obligation will carry over only to the successive calendar quarters of the same calendar year and will thereafter be extinguished. During 1987 the company was unable to purchase shares at a price not exceeding \$25 per share.

On June 1, 1989, these shares are retractable at par at the option of the holder.

5. Share Capital

Authorized

10,000,000 shares with a par value of \$100 each.

Issued

2,576,885 shares are outstanding and held by the Province.

As all of the shares are held by the Province earnings per share have not been provided.

6. Commitments

The company has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate which expire at various dates prior to the year 2003. Certain of these leases transfer substantially all of the benefits and risks of ownership to the company and are accounted for as capital assets.

The following is a schedule of future minimum rental payments at December 31, 1987 required under non-cancellable leases that have remaining terms in excess of one year (in thousands):

	Capital leases	Operating leases
1988	\$ 6,555	\$16,107
1989	6,555	15,274
1990	6,555	13,874
1991	6,555	12,500
1992	6,555	11,201
Later years	49,698	28,165
Total minimum lease payments	<u>82,473</u>	<u>\$97,121</u>
Less		
Executory costs	3,739	
Imputed interest	37,846	
Present value	<u>\$40,888</u>	

Assets under capital leases recorded in the property and equipment accounts as at December 31, 1987 are as follows (in thousands):

Equipment	\$48,794
Accumulated depreciation	<u>13,955</u>
	<u>\$34,839</u>

As at December 31, 1987 the company had outstanding purchase commitments for the acquisition of land, material and equipment amounting to \$20 million.

7. Contingent Liabilities

The company is contingently liable with respect to pending litigation and claims arising in connection with construction and in the normal course of business. In the opinion of management any liability that may arise will be capitalized or would not have a material adverse effect on future income.

8. Government Assistance

Government assistance was as follows (in thousands):

	<u>1987</u>	<u>1986</u>
Unapplied, beginning of year	<u>\$ 767</u>	<u>\$ 239</u>
Contributions during the year		
From the Province		
Fort Nelson extension		
Operating	3,493	4,500
Rehabilitation	7,275	6,599
Passenger operation	2,500	2,400
Passenger car modernization	1,063	527
Flood control	(110)	635
	<u>14,221</u>	<u>14,661</u>
From the Government of Canada		
Grain transportation	3,240	2,769
Rail line rehabilitation	—	6,250
Rail line electrification	—	125
	<u>17,461</u>	<u>23,805</u>
Total available	<u>18,228</u>	<u>24,044</u>
Applied as follows		
Revenue	3,240	2,769
Operating expenses	10,645	10,095
Property and equipment	4,343	10,413
	<u>18,228</u>	<u>23,277</u>
Unapplied, end of year	<u>\$ —</u>	<u>\$ 767</u>

9. Interest Expense

Interest expense was as follows (in thousands):

	<u>1987</u>	<u>1986</u>
Interest on long-term debt and notes to the Province	<u>\$ 8,254</u>	<u>\$ 9,675</u>
Less		
Sinking fund earnings	25	8
Interest earned on temporary investments	<u>1,420</u>	<u>1,077</u>
	<u>1,445</u>	<u>1,085</u>
	<u>6,809</u>	<u>8,590</u>
Interest on capital lease obligations	<u>5,030</u>	<u>5,097</u>
Net interest	<u>\$11,839</u>	<u>\$13,687</u>

10. Income Taxes

The effective tax rate differs from the rate of 51.6% applicable to British Columbia companies because the net income of British Columbia Railway Company and BCR Properties Ltd. is exempt from federal and provincial income taxes; however, the net income of BC Rail Ltd. is subject to federal and provincial income taxes.

11. Pension Plan

The company maintains a contributory defined benefit plan which covers substantially all of its employees. The plan provides pensions based on length of service and final average earnings. During 1987 the plan was amended to improve certain benefits. The amendment increased the liability as at December 31, 1987 for accrued pension benefits by approximately \$5 million and increased the pension expense for 1987 by approximately \$290,000.

A projection derived from an actuarial valuation of the plan as at May 31, 1986 indicates that the present value of the accrued pension benefits and the net assets available to provide for these benefits, as at December 31, 1987 are as follows:

Accrued pension benefits	\$157 million
Pension fund assets	\$163 million

12. Related Party Transactions

Related party information not presented elsewhere in the Notes to financial statements is presented below.

First preferred shares of BC Rail Ltd. and certain capital lease obligations are guaranteed by the Province. The Ministry of Finance and Corporate Relations of the Province acts as fiscal agent and the Superannuation Commission of the Province administers the company pension plan. Fees are charged for these services.

Except as described in Note 10, the company is subject to all taxes levied by the Province other than property and capital taxes. All other transactions between the company and the Province are at terms no more or less favourable than those with unrelated parties.

FIVE YEAR REVIEW

CONSOLIDATED STATEMENT	(Dollars in Thousands) FISCAL YEAR				
	1987	1986	1985	1984	1983
Revenues	<u>\$321,842</u>	<u>\$313,447</u>	<u>\$294,600</u>	<u>\$256,108</u>	<u>\$205,446</u>
Expenses					
Equipment	68,105	69,698	63,102	58,099	56,468
Operations	71,216	67,928	67,424	57,028	52,432
Road	51,049	46,460	38,468	33,693	29,372
Depreciation	34,870	32,359	30,425	26,520	18,312
Other	23,542	24,046	23,438	19,076	16,682
Government assistance	(10,645)	(10,095)	(6,618)	(5,217)	(7,772)
	<u>238,137</u>	<u>230,396</u>	<u>216,239</u>	<u>189,199</u>	<u>165,494</u>
Railway operating income	83,705	83,051	78,361	66,909	39,952
Non-operating income (expense)					
Interest	(11,839)	(13,687)	(18,442)	(46,990)	(48,633)
Debt servicing assistance	—	—	—	22,475	46,367
	(11,839)	(13,687)	(18,442)	(24,515)	(2,266)
Other income	372	2,711	1,844	1,636	2,281
	(11,467)	(10,976)	(16,598)	(22,879)	15
Net income before deferred income taxes	72,238	72,075	61,763	44,030	39,967
Provision for (recovery of) deferred income taxes	(517)	2,138	333	1,343	—
Net income before minority interest	72,755	69,937	61,430	42,687	39,967
Minority interest	18,500	18,500	18,500	8,345	—
Net income	<u>\$ 54,255</u>	<u>\$ 51,437</u>	<u>\$ 42,930</u>	<u>\$ 34,342</u>	<u>\$ 39,967</u>
OPERATING STATISTICS					
Total revenue cars loaded on line	229,506	232,367	232,115	197,643	145,571
Received from connections	3,656	3,330	2,220	2,614	3,198
Total carloadings	<u>233,162</u>	<u>235,697</u>	<u>234,335</u>	<u>200,257</u>	<u>148,769</u>
MOTIVE POWER					
Electric locomotives	7	7	7	7	7
Diesel locomotives	117	109	110	115	123
ROLLING STOCK FLEET					
Freight cars	10,107	10,146	9,960	10,060	9,690
Passenger cars	9	9	9	9	9
Boarding and work cars	449	455	452	469	446
TONS HAULED	17,670,147	17,854,317	17,831,967	14,672,412	9,347,197
EMPLOYEES AT YEAR END	2,760	2,660	2,620	2,640	2,600

**BC RAIL LTD.
FINANCIAL STATEMENTS**

BC RAIL LTD. MANAGEMENT REPORT

The financial statements of BC Rail Ltd. have been prepared by management in accordance with generally accepted accounting principles in a manner consistent with the previous year. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements and to ensure that the presentation conforms with generally accepted accounting principles.

During the year, the shareholders appointed Coopers & Lybrand as independent auditors to express an opinion as to whether these financial statements present fairly

the company's financial position and operating results in conformity with generally accepted accounting principles consistently applied. Their report outlines the scope of their examination and gives their opinion on the fairness of the statement presentation.

The Audit Committee of the company directors appointed by the Board meets periodically with financial officers of the company and the external auditors to ensure that each group is fulfilling its obligations and to review and approve the annual financial statements prior to their release.

Management maintains an

extensive system of internal accounting controls and believes that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an on-going basis by an internal audit department.

The financial statements have, in the opinion of the management of the company, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to financial statements.

AUDITORS' REPORT

To the Shareholders

We have examined the balance sheet of BC Rail Ltd. as at December 31, 1987 and the statements of income and deficit, contributed surplus and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1987 and the results of its operations and the changes in its cash position for the

year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

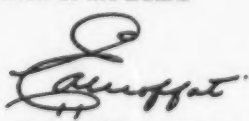
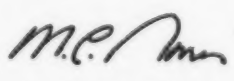
The comparative figures for the year ended December 31, 1986 were reported on by other auditors.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants

Vancouver, Canada
February 29, 1988

BC RAIL LTD. BALANCE SHEET

		(Dollars in Thousands) December 31	
		1987	1986
Assets			
Current assets			
Cash	\$ 23,447	\$ 712	
Accounts receivable	37,131	50,627	
Material and other items	35,580	30,366	
Due from British Columbia Railway Company	79,270	63,349	
	<u>175,428</u>	<u>145,054</u>	
Property and equipment			
Road and buildings	1,119,902	1,073,077	
Equipment	269,943	254,099	
	<u>1,389,845</u>	<u>1,327,176</u>	
Accumulated depreciation	278,099	247,069	
	<u>1,111,746</u>	<u>1,080,107</u>	
Dease Lake extension — Note 2		98,020	98,020
	<u>\$1,385,194</u>	<u>\$1,323,181</u>	
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable	\$ 97,279	\$ 81,222	
Current obligations on long-term debt	1,404	1,249	
Due to BCR Properties Ltd.	35,245	33,873	
	<u>133,928</u>	<u>116,344</u>	
Deferred income taxes		0	517
Long-term debt — Note 3		768,486	701,645
Shareholders' equity			
Share capital — Note 4	411,690	411,690	
Contributed surplus	72,155	92,655	
Retained earnings (deficit)	(1,065)	330	
	<u>482,780</u>	<u>504,675</u>	
Commitments — Note 5			
Contingent liabilities — Note 6			
	<u>\$1,385,194</u>	<u>\$1,323,181</u>	
On behalf of the Board			
 E.A. Moffat, Director		 M.C. Norris, Director	

BC RAIL LTD. INCOME AND DEFICIT

<i>(Dollars in Thousands)</i>		
For the year ended December 31		
	<u>1987</u>	<u>1986</u>
Revenues	<u>\$321,842</u>	<u>\$313,447</u>
Expenses		
Operations	71,216	67,928
Equipment	68,105	69,698
Road	51,049	46,460
Depreciation	34,870	32,359
Other	23,542	23,092
Government assistance — Note 7	<u>(10,645)</u>	<u>(10,095)</u>
	<u>238,137</u>	<u>229,442</u>
Railway operating income	83,705	84,005
Non-operating income (expense)		
Interest — Note 8	(84,715)	(80,468)
Other income	<u>(902)</u>	<u>437</u>
Net income (loss) before deferred income taxes	(1,912)	3,974
Provision for (recovery of) deferred income taxes	<u>(517)</u>	<u>2,138</u>
Net income (loss)	(1,395)	1,836
Retained earnings (deficit), beginning of year	<u>330</u>	<u>(1,506)</u>
Retained earnings (deficit), end of year	<u>\$ (1,065)</u>	<u>\$ 330</u>

BC RAIL LTD. CONTRIBUTED SURPLUS

<i>(Dollars in Thousands)</i>		
For the year ended December 31		
	<u>1987</u>	<u>1986</u>
Balance, beginning of year	\$ 92,655	\$113,155
Dividends paid		
Preferred shares	18,500	18,500
Common shares	<u>2,000</u>	<u>2,000</u>
	<u>20,500</u>	<u>20,500</u>
Balance, end of year	<u>\$ 72,155</u>	<u>\$ 92,655</u>

BC RAIL LTD. CASH FLOW

	<i>(Dollars in Thousands)</i>	
	For the year ended December 31	
	<u>1987</u>	<u>1986</u>
Operating activities		
Net income (loss)	\$ (1,395)	\$ 1,836
Add (deduct)		
Items not affecting working capital		
Depreciation and amortization	34,870	32,359
Deferred income taxes	(517)	2,138
Net changes in non-cash working capital		
Accounts receivable	13,496	2,912
Material and other items	(5,214)	4,179
Accounts payable	16,203	(24,461)
Intercompany accounts	(14,549)	(24,138)
Interest	84,715	80,468
	<u>127,609</u>	<u>75,293</u>
Investing activities		
Additions to property and equipment	(70,852)	(53,817)
Change in payables for equipment purchases	(146)	(1,681)
Government assistance for capital items	4,343	10,413
	<u>(66,655)</u>	<u>(45,085)</u>
Financing activities		
Issue of long-term debt	68,245	62,210
Repayment of long-term debt	(1,249)	(1,190)
Interest	(84,715)	(80,468)
	<u>(17,719)</u>	<u>(19,448)</u>
Dividends paid	(20,500)	(20,500)
Increase (decrease) in cash	22,735	(9,740)
Cash, beginning of year	712	10,452
Cash, end of year	<u>\$ 23,447</u>	<u>\$ 712</u>

BC RAIL LTD.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

The accounting regulations prescribed by the Canadian Transport Commission for Canadian railways have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Commission for approval.

Class of business

The company provides a fully integrated rail freight service within British Columbia. Services other than hauling freight are not of sufficient size to warrant separate reporting.

Road property

New construction is recorded at cost net of Government grants. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material replaced is removed at amounts which approximate average unit costs. Labour costs for programmed replacements are expensed as incurred.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which, on disposal, the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in income. The original cost of assets less estimated salvage value is depreciated over the following number of years:

	Number of years
Grades, surfacing and tunnels	100
Rails	35
Ties	15
Ballast	25
Bridges	30-80
Locomotives and power units	25
Freight cars	15-33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Material and supplies

Inventories of material and supplies are valued at the lower of average cost and net realizable value.

Government assistance

Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Operating assistance has been deducted from the related expense accounts or included in revenue.

Income taxes

Income tax expense is computed on the basis of accounting income recorded by the company. The current year income tax recovery relates to the drawdown of prior years deferred tax credits.

Transactions in foreign currency

Transactions originating in foreign currency are translated at the approximate exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currency at the balance sheet date are translated to equivalent Canadian amounts at the current rate of exchange.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases. The capital lease obligations reflect the present value of future minimum rental payments discounted at the interest rate implicit in the leases. The capitalized values of depreciable assets are generally depreciated over the related lease terms in equal annual amounts. Costs of all other leases are charged against operations as incurred.

2. Dease Lake Extension

Included in the assets acquired from British Columbia Railway Company were costs related to the uncompleted Dease Lake extension. Construction was suspended in 1977 and there are no commitments to continue. In the event any portion of this extension is abandoned, the cost less any value recovered will be written off at that time.

3. Long-Term Debt

Long-term debt outstanding, less current maturities, consists of the following (in thousands):

	<u>1987</u>	<u>1986</u>
Capital lease obligations —		
Notes 5 and 10	\$ 40,888	\$ 42,137
Deduct current portion	<u>1,404</u>	<u>1,249</u>
	<u>39,484</u>	<u>40,888</u>
Notes payable to		
British Columbia		
Railway Company		
10.75% due		
February 1990	25,000	25,000
10.4% due		
June 1995	56,350	56,350
12.75% due		
July 1995	114,697	114,697
9.7% due		
June 1991	62,210	62,210
9.96% due		
June 1992	<u>68,245</u>	<u>—</u>
	<u>326,502</u>	<u>258,257</u>
Notes payable to		
BCR Properties Ltd.		
14% due June 1999	<u>402,500</u>	<u>402,500</u>
	<u>\$768,486</u>	<u>\$701,645</u>

4. Share Capital

Authorized

5,000,000 common shares with a par value of \$100 each.

20,000,000 first preferred shares with a par value of \$25 each of which 8,000,000 are designated as \$2.3125 cumulative redeemable retractable first preferred shares, series 1-A.

20,000,000 second preferred shares with a par value of \$100 each of which 3,000,000 have been designated as non-cumulative redeemable second preferred shares, series 2-A.

Issued and outstanding (\$ in thousands)

500,012 common shares	\$ 50,001
8,000,000 series 1-A preferred shares (Note 5)	200,000
1,616,892 series 2-A preferred shares	<u>161,689</u>
	<u>\$411,690</u>

As all of the common shares are held by British Columbia Railway Company and its wholly owned subsidiary, earnings per share have not been provided.

5. Commitments

The company has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate which expire at various dates prior to the year 2003. Certain of these leases transfer substantially all of

the benefits and risks of ownership to the company and are accounted for as capital assets.

The following is a schedule of future minimum rental payments at December 31, 1987 required under non-cancellable leases that have remaining terms in excess of one year (in thousands):

	<u>Capital leases</u>	<u>Operating leases</u>
1988	\$ 6,555	\$16,107
1989	6,555	15,274
1990	6,555	13,874
1991	6,555	12,500
1992	6,555	11,201
Later years	<u>49,698</u>	<u>28,165</u>
Total minimum lease payments	82,473	<u>\$97,121</u>

Less

Executory costs	3,739
Imputed interest	<u>37,846</u>

Present value

\$40,888

Assets under capital leases recorded in the property and equipment accounts as at December 31, 1987 are as follows (in thousands):

Equipment	\$48,794
Accumulated depreciation	<u>13,955</u>
	<u>\$34,839</u>

As at December 31, 1987 the company had outstanding purchase commitments for the acquisition of land, material and equipment amounting to \$20 million.

The company must make all reasonable efforts in each quarter to purchase for cancellation in the open market three-quarters of 1% of the series 1-A preferred shares outstanding at the beginning of the quarter at a price not to exceed \$25 per share and all transaction costs. If it is unable to fulfill its obligation in any calendar quarter the obligation will carry over only to the successive calendar quarters of the same calendar year and will thereafter be extinguished. During 1987 the company was unable to purchase shares at a price not exceeding \$25 per share. On June 1, 1989 these shares are retractable at par at the option of the holder.

6. Contingent Liabilities

The company is contingently liable with respect to pending litigation and claims arising in connection with construction and in the normal course of business. In the opinion of management any liability that may arise will be capitalized or would not have a material adverse effect on future income.

7. Government Assistance

Government assistance was as follows (in thousands):

	<u>1987</u>	<u>1986</u>
Unapplied, beginning of year	\$ 767	\$ 239
Contributions during the year		
From the Province of British Columbia (the Province)		
Fort Nelson extension		
Operating	3,493	4,500
Rehabilitation	7,275	6,599
Passenger operation	2,500	2,400
Passenger car modernization	1,063	527
Flood control	(110)	635
	<u>14,221</u>	<u>14,661</u>
From the Government of Canada		
Grain transportation	3,240	2,769
Track rehabilitation	—	6,250
Rail line electrification	—	125
	<u>17,461</u>	<u>23,805</u>
Total available	<u>18,228</u>	<u>24,044</u>
Applied as follows		
Operating expenses		
Fort Nelson extension	7,082	6,345
Passenger operation	2,500	2,400
Passenger car modernization	1,063	527
Dawson Creek	—	823
	<u>10,645</u>	<u>10,095</u>
Revenue	3,240	2,769
Property and equipment	<u>4,343</u>	<u>10,413</u>
	<u>18,228</u>	<u>23,277</u>
Unapplied, end of year	<u>\$ —</u>	<u>\$ 767</u>

8. Interest Expense

Interest expense was as follows (in thousands):

	<u>1987</u>	<u>1986</u>
Notes payable		
BCR Properties Ltd.	\$56,350	\$56,350
British Columbia Railway Company	<u>32,838</u>	<u>26,396</u>
	<u>89,188</u>	<u>82,746</u>
Capital lease obligations	<u>5,030</u>	<u>5,097</u>
	<u>94,218</u>	<u>87,843</u>
Less interest income		
Related companies	8,082	6,298
Other	<u>1,421</u>	<u>1,077</u>
	<u>9,503</u>	<u>7,375</u>
	<u>\$84,715</u>	<u>\$80,468</u>

9. Pension Plan

The company maintains a contributory defined benefit plan which covers substantially all of its employees. The plan provides pensions based on length of service and final average earnings. During 1987 the plan was amended to improve certain benefits. The amendment increased the liability as at December 31, 1987 for accrued pension benefits by approximately \$5 million and increased the pension expense for 1987 by approximately \$290,000.

A projection derived from an actuarial valuation of the plan as at May 31, 1986 indicates that the present value of the accrued pension benefits and the net assets available to provide for these benefits, as at December 31, 1987 are as follows:

Accrued pension benefits	\$157 million
Pension fund assets	\$163 million

10. Related Party Transactions

Related party information not presented elsewhere in the Notes to financial statements is presented below.

All of the outstanding common and second preferred shares of the company are owned as follows:

BCR Properties Ltd. (a wholly-owned subsidiary of British Columbia Railway Company)	75%
British Columbia Railway Company	25%

First preferred shares and certain capital lease obligations are guaranteed by the Province. The Ministry of Finance and Corporate Relations of the Province acts as fiscal agent and the Superannuation Commission of the Province administers the company pension plan. Fees are charged for both of these services.

The company is subject to all other taxes levied by the Province except property and capital taxes. All other transactions between the company and the Province are at terms no more or less favourable than those with unrelated parties.

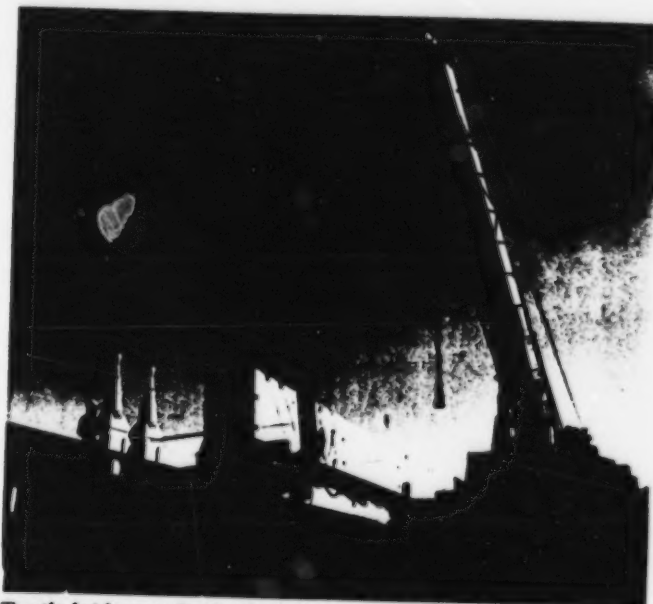
REINVESTING IN B.C.

If it were possible to revisit 1912 — and describe to the founders of the Pacific Great Eastern Railway the effect it would have on B.C.'s economy 75 years later — they probably wouldn't be surprised.

After all, they were making speeches at that time predicting exactly that. But the magnitude of the railway's eventual impact, as well as the staggering sums involved in running a 1987 railway, would nevertheless have caused more than a few of their bushy Edwardian eyebrows to be raised.

In 1987, BC Rail's total operating expenses amounted to \$238 million. The railway's capital expenditures were \$72.6 million. Its payroll was \$111 million and the value of goods and services purchased from B.C. suppliers amounted to \$68 million.

Opposite: BC Rail operates 117 diesel-electric and seven electric locomotives.



Trestle bridges at Rutherford Creek, north of Squamish and North Vancouver's Mosquito Creek were replaced with prestressed concrete structures as part of the continuing upgrading and modernization program.



All this in one year — from a railway founded initially on an investment of \$28 million.

Such expenditures have a marked effect on the provincial economy, complementing the railway's role in transporting B.C. products to world markets, and the jobs created in the process.

As a matter of corporate policy, BC Rail buys locally whenever possible. This applies not only for major purchases, but also for relatively minor purchases.

For example, more than 400 local companies, of all sizes, in the Prince George area shared more than \$12.5 million worth of railway business in 1987.

Of the \$116 million spent in total on goods and

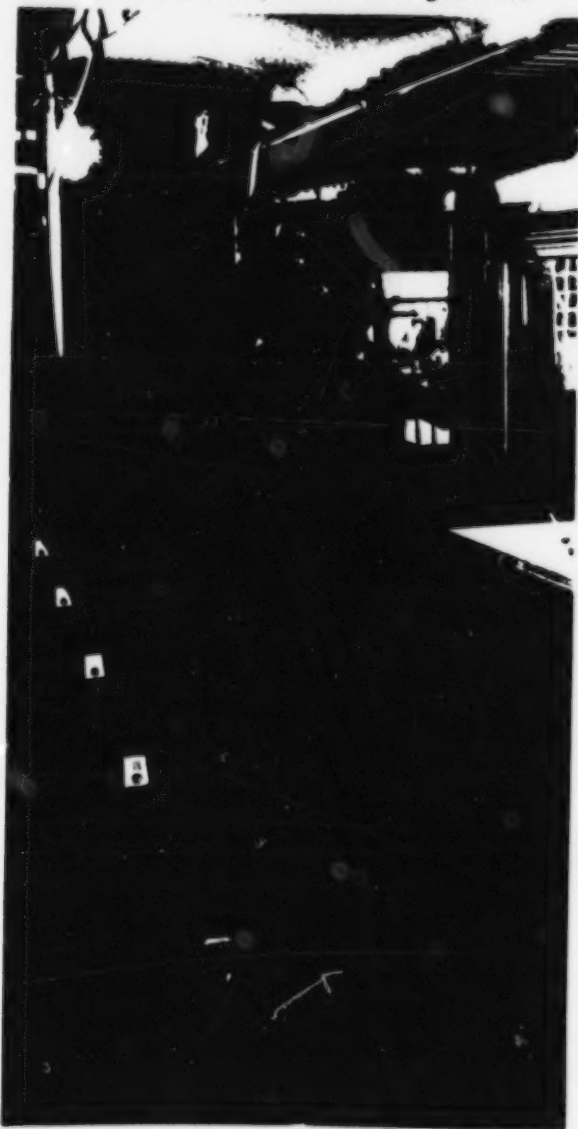
services in 1987, more than \$68 million was obtained through B.C. sources, approximately \$32 million from elsewhere in Canada and the remainder, about \$16 million, from the United States and overseas.

There are scores, if not hundreds, of B.C. companies that supplied goods and services to BC Rail in 1987. After all, the higher the level of B.C. content a product involves, the more active the local economy, the local employment and wealth created. An example is Microfuel Systems Inc., of Nanaimo, B.C. Working closely with the railway, the company has developed an electronic Train Monitoring and Control System — similar to the so-called 'black boxes' carried on aircraft — which monitors and records all train activities and events.

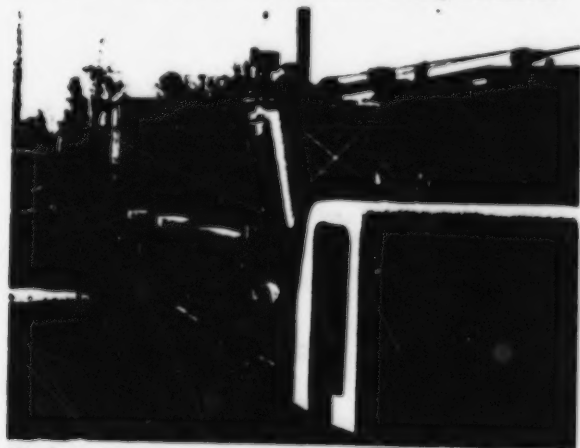
Microfuel Systems, a small electronic company employing 12 people, developed the hardware and software for the instrument and is supplying 63 TMACS units to BC Rail at a total cost of \$500,000.

During 1987, the railway bought \$681,000 worth of radio equipment from a Vancouver-based electronics company; \$2.5 million worth of food and services from caterers in Vancouver and Prince George; \$2.8 million worth of wooden crossties and preservative treatment from a Williams Lake company; \$169,000 worth of printed forms in Vancouver; spent \$236,000 on flatcar decking and miscellaneous hardware in Squamish; \$6.7 million on diesel fuel in Prince George and \$1.8 million on fuel in Taylor, B.C., near Fort St. John.

In addition to such sizeable orders, the railway makes innumerable smaller purchases in large and small communities all along the line. These range from hardware to hotel rooms, ropes to restaurant meals, canned drinking water to wieners and large orders or



The passenger car rebuild program continued through 1987 in the Squamish repair and maintenance facility.



Work equipment readied for spring startup of 1988 capital improvement program.

Opposite: Centre beam conversion of existing flatcars is carried out in Squamish car shops.

small, they all pump much-needed cash into local economies.

Purchasing activities aside, BC Rail is often the largest employer in the smaller communities served. In others, it is among the largest.

In North Vancouver, the railway employs about 870 people, for an annual payroll of approximately \$35 million. Further north in Squamish, the company's workforce totals 370, and its payroll about \$15 million.

Lillooet's 96 employees receive pay and benefits amounting to \$3.8 million while in Prince George, 584 employees earn more than \$23 million. Proportionately, the story is the same in smaller communities like 100-Mile House, with 20 employees; Fort St. John with 74 and Chetwynd with 56.

Benefits from capital improvements also spill over into neighbouring communities. During the past six years, for example, more than \$13 million has been

invested in a work equipment shop, a new yard office, stores complex, car shop, diesel shop and track improvements in and around Prince George. Over the past 10 years, more than \$44 million has been invested in that area.

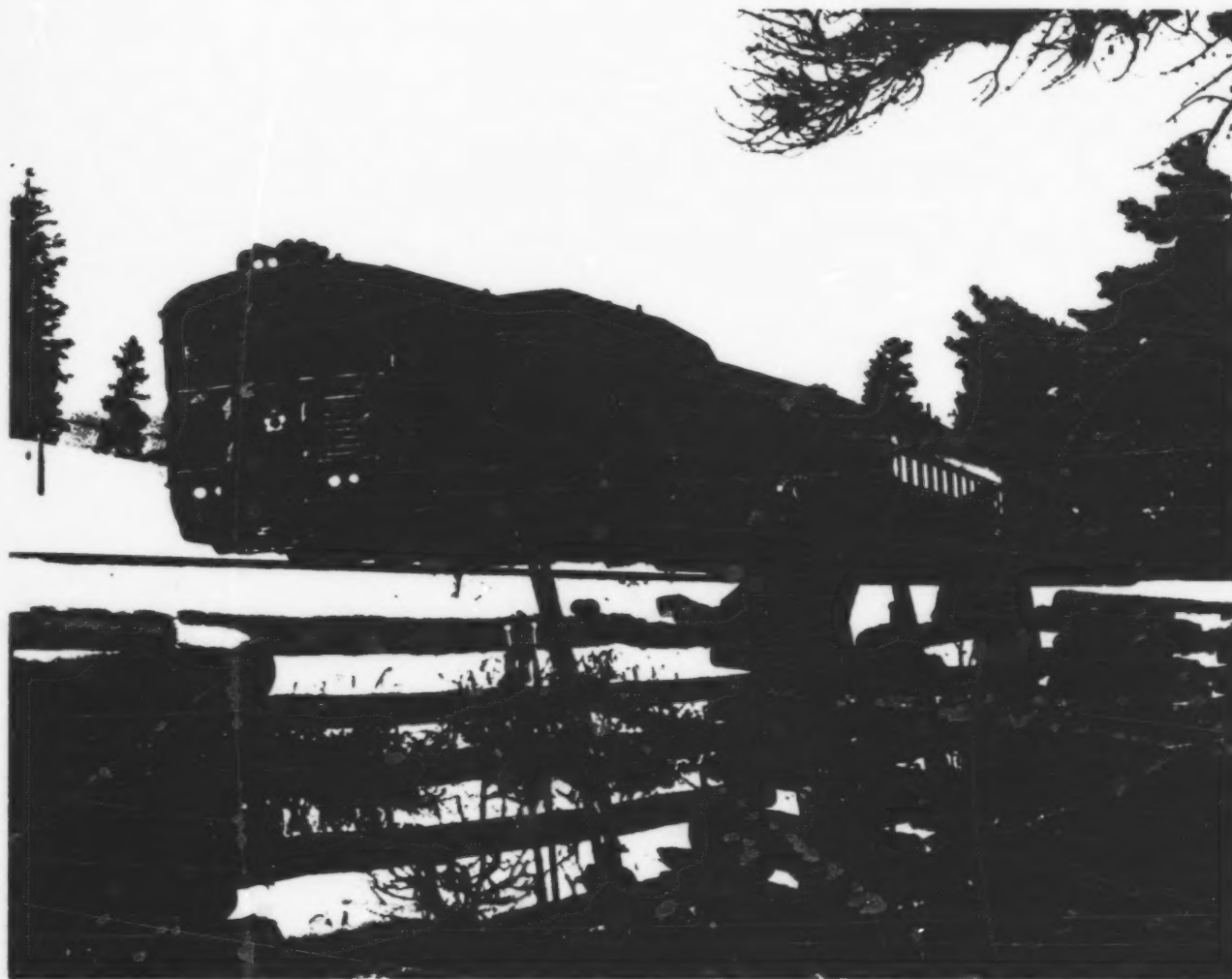
In the years to come, BC Rail expects to continue its important economic role in British Columbia. Lumber and pulp and paper mill expansions now in progress along the BC Rail route — an investment of more than \$600 million by forest products companies — are expected to produce 9,000 new carloadings annually. The activity generated will help solidify BC Rail's economic impact in the province, secure an already stable workforce and support the demand for locally produced goods and services in the future.

Opposite: Intermodal services play a major role in BC Rail operations.



Prince George Administration moved to new quarters in mid-1987.

CONTACT INFORMATION



The number of passengers carried rose in 1987. The Cariboo-Chilcotin region continues to be a popular year-round destination.

NOTICE OF SPECIAL MEETING For Non-voting Preferred Shareholders

The Board of Directors and Management of BC Rail Ltd. cordially invite preferred shareholders to an informational meeting on June 16th, 1988. The meeting will start at 10:30 a.m., and be held in Pavilion 'B' of the Pan Pacific Vancouver Hotel, 300-999 Canada Place, Vancouver, B.C.

The meeting is not a legal requirement and it is offered as a courtesy to the company's preferred shareholders. Its purpose is to report on company

activities and performance during 1987 and on the outlook for the current operational year. The informational meeting is open to the public. It follows the company's Annual General Meeting, which is open only to common shareholders, directors and officers of the company.

For further information, please call:

Ms. C. A. Lee
(604) 984-5291

If you would like more copies of this report or additional information about the British Columbia Railway group of companies, please call or write:

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